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November 1, 1956
DEPUTY UNDER SECRETARY OF STATE

TO : - The Acting Secretary

THROUGH: S/S

FROM: EUR - C. Burke Elbrick (m) 3.

NOV 2 1956

DEPARTMENT OF STATE

SUBJECT: Programs for Berlin, the East Zone of Germany and European Technical Exchange.

Berlin and East Zone of Germany

Regarding the recommendations in Mr. Hollister's memorandum of October 25, 1956 (Tab A), we believe that the budget for FY 1958 should contain funds for a limited amount of new economic aid for Berlin and for a continuation of the East Zone projects. We believe it is particularly important at this time, in the light of recent developments in the satellites, to make clear to the Berliners and beyond them, to Eastern Germany and Eastern Europe the continuance of U. S. support for free Berlin. U. S. economic aid to Berlin as distinct from other European aid programs has been based on the responsibility of the United States as an occupying power in Berlin. It has also taken into account the primarily political objective of strengthening our position in Berlin and of making West Berlin a show-window to attract and influence the people behind the Iron Curtain.

Although a certain measure of economic recovery has been achieved by past aid programs, which is sustained by the funds available from repayments on previous counterpart loans, economic recovery in Berlin is less than half that in the Federal Republic. We continue to be faced, therefore, with the necessity of maintaining the morale of the population in the light of the contrast between conditions in West Germany and Berlin, on the one hand, and the gradually improving situation in the Soviet Zone, on the other. With the contribution of a relatively small amount of new economic aid, the U. S. is able to give direction to the total reconstruction program of the city along constructive lines, identifying the U. S. with the entire economic progress accomplished in the city. Ambassador Conant, in his recent report, strongly recommended the continuation of these programs in the next fiscal year and so long as the situation in Berlin remains abnormal. Berlin is not part of the German Federal Republic, and therefore the remarkable recovery which has taken place in Germany, although indirectly benefitting the city, and permitting a substantial amount of aid to be channeled for Germany to Berlin, does not remove the desirability of continuing restricted U. S. aid programs. Discontinuation of U. S. aid for

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Berlin would be equated with withdrawal of U. S. support for Berlin and would diminish our influence and position within the city.

While the special character of the East Zone projects is recognized in the Department and their political nature has never been questioned, it is desirable to continue the use of the same channels and machinery for handling these funds. To withdraw from the projects at this time or to change their character would lead to misunderstanding on the part of the Germans and would in no material way advance the purposes for which they are designed. After canvassing the possibilities, it is apparent no other source of funds is appropriate and available. The handling of these programs in Germany and the allocation of the funds in Washington have been accomplished smoothly and without any difficulties, both as to security or effectiveness of use over a period of more than three years. It is desirable to continue this same approach and to demonstrate through these as well as through other means our readiness to aid those who are standing steadfast against Communist oppression.

From our discussions with the Embassy Staff, we believe that new techniques might be worked out with ICA to handle the administrative and accounting arrangements in a way which would overcome certain security problems which have bothered Mr. Hollister and Ambassador Conant. We are prepared to discuss this with ICA as soon as a decision is reached on this matter. We would, of course, continue the current arrangements as expressed in your letter of March 21, 1956, to Mr. Hollister (Tab B), under which primary responsibility for those programs rests with the Assistant Secretary for European Affairs.

We believe there is an advantage in continuing the well established pattern for handling the Berlin and Soviet Zone projects, set forth by the Congress in Section 404 of the Mutual Security Act (Tab C), which takes into account our special responsibility in Berlin and the political objectives which the U. S. Government has in those areas.

With respect to the Berlin Technical Exchange program, the amount involved is small and it is our view that the program should not be terminated at this time. We do not believe a decision should be made at this time until we have had the benefit of certain surveys now under way. A separate memorandum dealing with Technical Exchange elsewhere in Europe is being submitted separately.

Recommendations

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Recommendation:

That you arrange a meeting to discuss this matter with Mr. Hollister, Mr. Barnes and myself.

Enclosures:

1. Tab A - Copy of memorandum, Mr. Hollister to Mr. Hoover dated October 25, 1956.
2. Tab B - Copy of memorandum, Mr. Hoover to Mr. Hollister dated March 21, 1956.
3. Tab C - Mutual Security Act, Sec. 404.

Approve _____ Date _____ Time _____

Disapprove _____

Concurrences:

E - Mr. Kalijarvi *TVK*

P - Mr. Lightner (in draft) *LTD for EAL*

U/MSA - Mr. Barnes

G - Mr. Murphy

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